



December 21, 2019

Dear Client:

Last night, the SECURE Act (short for Setting Every Community Up for Retirement Enhancement Act) was signed into law by President Trump. It becomes effective on Jan. 1.

The SECURE Act is the most significant piece of retirement legislation since 2006, with dozens of new or improved features that will make it easier for tens of millions of hardworking Americans to save for retirement!

The fact that this Congress — gridlocked on virtually every subject, with massive levels of animosity over pretty much everything (including, of course, the impeachment proceedings, about which more later) — was able to pass this legislation shows how much bipartisan support there is for improving retirement security for all Americans. We're strong supporters of this landmark legislation, and happy to note our efforts to secure (sorry for the pun) the bill's passage through our work with the Funding Our Future coalition, which I formed last year with the Bipartisan Policy Center. Today, the coalition has nearly 50 members, including universities, non-profit organizations, trade associations, financial service companies and think tanks.

Here are the law's major changes — many of which might affect you:

- Required minimum distributions must now begin at age 72, up from 70 ½. (This doesn't apply to those already age 70 ½.)
- If you're still working at age 70, you'll be able to continue contributing to an individual retirement account (IRA).
- The new law makes it easier and cheaper for small employers to offer retirement plans to employees. So if you work for a small company that doesn't offer a 401(k) plan, your employer might create one in 2020.
- If you're working part time, you'll be able to participate in your employer's retirement plan.
- Companies will be able to auto-enroll new employees into the 401(k) plan with contribution rates up to 15 percent of salary, up from 10 percent today.
- Parents under age 59 ½ who give birth or adopt a child can withdraw up to \$5,000 from their retirement accounts without paying a 10 percent IRS penalty. (Taxes will still be due on the withdrawal.)

A Special Note About the Stretch IRA

The SECURE Act closes a loophole regarding inherited IRAs. In our view, this is not material to most Americans and, given Congress' challenges to manage the federal budget as effectively as possible, we find it difficult to justify opposition to the change.

Under current law, nonspouse beneficiaries must withdraw money from an inherited IRA either within five years or over their lifetimes. Choosing the latter lets them "stretch" the withdrawals over decades, reducing the amount that must be withdrawn each year, which in turn reduces the annual tax liability while allowing the bulk of the inherited IRA to continue growing in value.

The SECURE Act, though, requires all distributions for future inherited IRAs to be completed within 10 years instead of over the heir's lifetime. Some people have complained about this, arguing that accelerating the withdrawals will increase taxes for the heirs while reducing their ability to let the money grow tax-deferred.

We must admit that the above argument is hard to defend. Congress created IRAs to help Americans save money for retirement, not to help the children and grandchildren of very wealthy people avoid taxes for decades on their parents' and grandparents' money. Besides, our experience has shown that many heirs of IRAs withdraw some or all of the money from inherited IRAs within 10 years anyway — to pay off debt, pay for college, buy homes, start businesses and more. So, we believe that the new law won't make any difference for the vast majority of Americans.

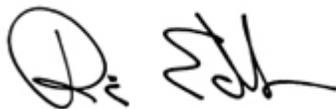
It's also important to note that spouses are not affected by the SECURE Act; the stretch IRA provision is still valid for them. So, they can continue to take withdrawals from their deceased's spouse's IRA over their lifetime.

Thus, it's children who are impacted by the new law. But the impact is slight for most of them. The reason: The average child is 26 years younger than their parents, according to the National Center for Health Statistics. That means they used to be able to "stretch" distributions from inherited IRAs for 26 years on average; the new law limits this stretch to 10 years. The difference is simply not significant enough to fuss about, in our view.

As always, feel free to contact your planner if you have any questions or concerns about the new law or any other aspect of your personal finances.

Thank you for the privilege to serve you, and we wish you very happy holidays!

Regards!

A handwritten signature in black ink, appearing to read "Ric Edelman". The signature is stylized and cursive.

Ric Edelman
Founder

P.S. I promised to mention the impeachment. From a financial perspective, regarding your investments, it's a nonevent. The Dow Jones Industrial Average gained 138 points on Thursday, the day after the House voted to impeach the president — suggesting that Wall Street is unperturbed by the spectacle occurring in our nation's capital. Because the House's vote to impeach was widely expected, and the Senate's acquittal equally anticipated, few on Wall Street (or anywhere else, it seems) considers these events to be surprising or material. It's worth noting that Wall Street's dismissiveness is not due to bias or partisanship; according to a poll by Tiburon Strategic Advisors, only 41 percent of financial service company executives say they are Republican, with 25 percent calling themselves Democrats and 34 percent saying they are Independent. We will continue to monitor political events and keep you informed.

© 2019 Edelman Financial Engines, LLC. Financial Engines® and Edelman Financial Engines™ are trademarks of Edelman Financial Engines, LLC. All advisory services offered through Financial Engines Advisors L.L.C. (FEA), a federally registered investment advisor and wholly owned subsidiary of Edelman Financial Engines, LLC. FEA may also be referred to as Edelman Financial Engines or Financial Engines. Results are not guaranteed. *AM1043260*

This material was prepared for informational and/or educational purposes only. Neither Financial Engines Advisors L.L.C (also referred to as Edelman Financial Engines) nor its affiliates offer tax or legal advice. Be sure to consult with a qualified tax or legal professional regarding the best options for your particular circumstances.